

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

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OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01

PRS-01 /098 W

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R 021858Z MAY 77

FM AMEMBASSY TEGUCIGALPA

TO SECSTATE WASHDC 6480

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E.O. 11652: NA

TAGS: EPET, HO

SUBJECT: UPDATE ON PETR

SEUM SHORTAGE AND TEXACO REFINERY PROBLEM

REF: TEGUCIGALPA 1366

IMPENDING FUEL CRISIS IN HONDURAS LATE MARCH, STEMMING FROM NEAR DEPLETION OF STOCKS AND REFINERY BREAKDOWN, WAS RESOLVED WITH ARRIVAL OF TANKER SS GHENT MARCH 30. RESERVES HAVE BEEN RESTORED TO SAFE LEVELS, AND TEXACO REFINERY EXPECTED TO BE ABLE MEET COUNTRY'S REQUIREMENTS THROUGH AUGUST. THEREAFTER, ADDITIONAL PETROLEUM DERIVATIVE IMPORTS WILL BE NEEDED. TEXACO CONTINUES TO EXPERIENCE SQUEEZE BETWEEN RISING PETROLEUM IMPORT COSTS AND GOH REGULATED PRICES AS OUTLINED PRIOR EMBTELS. ALSO, COMPANY HAS NOT YET BEEN COMPENSATED FOR \$532,000 IN EXCESS OF DIESEL IMPORT COSTS OVER REGULATED PRICES ON RECENT REFINED PRODUCT SHIPMENTS. TEXACO EARNINGS THROUGH APRIL 1977 CONSEQUENTLY ARE MARGINAL, AND ARE EXPECTED TO BECOME LOSSES BY JUNE AS IMPORT PRICES CONTINUE UPWARD. TEXACO PLANS TO PROPOSE NEW FORMULA FOR PERIODIC ADJUSTMENT OF REGULATED PRICES TO ELIMINATE COST/PRICE SQUEEZE.

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1. REFTEL REPORTED GOH REQUEST FOR US GOVERNMENT INTERVENTION TO ASSIST IN RESOLVING IMMINENT FUEL SUPPLY CRISIS IN HONDURAS RESULTING FROM LOW RESERVES AND TEXACO REFINERY BREADKOWN. EMBASSY ALSO REPORTED THAT TEXACO AND ESSO EFFORTS TO SECURE DIVERSION OF TANKERS IN CARIBBEAN AREA WERE LIKELY TO AVERT IMPENDING CRISIS AND THAT DEPARTMENT'S ASSISTANCE WOULD NOT BE NEEDED. ARRIVAL OF TEXACO TANKER SS GHENT MARCH 30 DID, IN FACT,

ELIMINATE SHORTAGE AND PERMITTED RESTORATION OF RESERVE SUPPLIES.

2. EMBOFF THIS WEEK MET WITH LOCAL TEXACO OFFICERS W. W. MACDONALD AND R. DIECKGRAFFE FOR UPDATE ON SUPPLY SITUATION, LONG-STANDING COST/PRICE SQUEEZE ON REFINERY AND PROSPECTS FOR SOLUTION OF THESE AND OTHER TEXACO PROBLEMS IN HONDURAS. FOLLOWING SUMMARIZES THEIR ACCOUNT OF SITUATION AND OUTLOOK.

A. SUPPLY SITUATION

TEXACO SECURED LAST-MINUTE PERMISSION TO OFFLOAD 40,000 BARRELS DIESEL FROM SS GHENT IN ADDITION TO 60,000 ALREADY AUTHORIZED, THEREBY ASSURING AMPLE SUPPLIES THIE FUEL THROUGH SUMMER. SHORTAGE WAS MOST ACUTE IN DIESEL. TEXACO THEN MET WITH ECON-VICEMIN BENDECK APIL 5 TO DESCRIBE RISING DEMAND FOR DIESEL (20 PERCENT A YEAR) AND OTHER FUELS AT (3-5 PERCENT) AND TO DISCUSS WAYS OF MEETING FUTURE DIESEL REQUIREMENTS WHICH NOW IN EXCESS OF REFINERY CAPACTIY. TEXACO THEN FOLLOWED UP APRIL 19 WITH LETTER AND TABLES DEPICTING TRENDS AND PROPOSING IMPORTATION OF SHORTFALLS WHICH EXPECTED TO EMERGE IN SEPTEMBER. LETTER ALSO POINTED OUT NEED FOR MECHANISMS GIVING COMPANY LATITUDE TO SECURE TIMELY SHIPMENTS, FOR COMPENSATION COVERING GAPS BETWEEN LANDED COSTS AND REGULATED PRICE (SIX US CENTS A GALLON IN CASE OF DIESEL) AND FOR PERIODIC INFORMAL RATIONING WHEN RESERVES FELL TO 10 DAYS SUPPLY. THE MINISTRY HAS NOT YET RESPONDED TO THIS LETTER. DURING VISIT EARLY APRIL J. JOHNSON OF CORAL GABLES TEXACO OFFICE EMPHASIZED TO MINISTRY THAT SINCE REFINERY CAPACITY NOW EXCEEDED BY DEMAND,PERIODIC PRODUCT IMPORTS INEVI-TABLE. HE ALSO ADVISED THAT TEXACO DID NOT ENVISAGE INCREASING LIMITED OFFICIAL USE

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REFINERY CAPACITY WITHOUT LOCAL CAPITAL CONTRIBUTION--GOVERNMENT OR PRIVATE. OUTPUT COULD BE EXPANDED BY 25 PERCENT WITH INVESTMENT OF ABOUT \$5 MILLION, AND PROJECT WOULD REQUIRE THREE YEARS, HE ADDED. RECENTLY TEXACO ADVISED EMBOFF OF ANOTHER REFINERY SHUTDOWN FOR REPAIRD (APRIL 24-28) WHICH COULD REQUIRE NEXT SUPPLEMENTAL SHIPMENTS SOONER THAN SEPTEMBER.

B. PRICE SQUEEZE. THE LONG-STANDING PROBLEM (REPORTED REFTTEL AND PREVIOUS) STEMMING FROM FREQUENT INCREASES IN CRUDE PETROL-EUM IMPORT COSTS AND GOH-REGULATED INTERNAL PRICES CONTINUES. TEXACO HAS KEPT GOH INFORMED OF COST INCREASES AND HAS REPEATED ITS REQUESTS FOR COMPENSATION COVERING LOSSES RESULTING FROM LOW INTERNAL DIESEL PRICES FIXED BY GOH. THE GOVERNMENT'S ASSURANCES OF COMPENSATION, OBTAINED PRIOR TO DIVERSIONS OF SS PENANG (FEBRUARY) AND SS GHENT (MARCH) SHIPMENTS TO HONDURAS, HAVE NOT YET BEEN CARRIED OUT. LOSS ON PENANG SHIPMENT \$291,000 AND ON GHENT SHIPMENT \$241,000. TEXACO HAS ARRANGEMENTS IN GUATEMALA AND ELSEWHERE FOR PROMPT AUTOMATIC COVERAGE OF CRUDE PETROLEUM PRICE HIKES (WHICH OCCURRING MONTHLY ON DIESEL) AND HOPES TO ADOPT SIMILAR FORMULA HERE. MR. JOHNSON IS EXPECTED TO PRESENT

PROPOSAL TO GOH IN FORTHCOMING VISIT. PROPOSAL WOULD LINK
INTERNAL PRICES TO PLATT OILGRAM QUOTATIONS AND SHIFT PART OF
BURDEN OF ANY COST/PRICE GAPS TO VARIOUS DISTRIBUTORS IN COUNTRY.
HE ALSO IS EXPECTED TO PROPOSE THAT GOH STUDY ITS FUTURE PETROL-
EUM REQUIREMENTS AND ALTERNATIVE SUPPLY MODES SUGGESTED IN
RECENT COMPANY COMMUNICATIONS. PENDING JOHNSON'S ARRIVAL, TEXACO
IS MAINTAINING LOW PROFILE WITH GOH AND PRESS.

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FM AMEMBASSY TEGUCIGALPA
TO SECSTATE WASHDC 6481

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3. EMBASSY OBTAINED FROM MACDONALD A COPY OF REFINERY'S APRIL
19 LETTER TO ECONOMIN AND OF TABLES DEPICTING SUPPLY, PRICE AND
EARNINGS DATA. PRE-TAX EARNINGS PROJECTED ON BASIS APRIL 1
PRICE AND CONSUMPTION PATTERNS WOULD AMOUNT TO ONLY TWO PERCENT
OF REVENUES. AT PRESENT RATE OF CRUDE PRICE INCREASES, IT WOULD
APPEAR THAT EVEN THESE MODEST EARNINGS WOULD REVERT TO LOSSES
IN TWO MONTHS. COPIES BEING AIRPOUCHED FOR USE ALONG WITH OTHER
DOCUMENTS POUCHED EARLIER FOR DEPARTMENT'S CONSIDERATION OF
"CREEPING" EXPROPRIATION QUESTION AND OTHER LEGAL ASPECTS TEXACO
PROBLEMS IN HONDURAS.

COMMENT

EMBOFF CONVERSATIONS WITH OTHER OIL COMPANY AND GOH OFFICERS
CONFIRMS THAT EMERGENT FUEL PROBLEM RESOLVED. MY ROLE IN
SECURING GOH ASSURANCES THAT TEXACO WOULD BE COMPENSATED FOR
ADDED COSTS OF PENANG AND GHENT SHIPMENTS, AND IN COUNSELING
RESTRAINT ON TEXACO'S PART HELPED PAVE THE WAY FOR AMELIORATION
OF TEXACO'S PROBLEM IN SHORT-RUN. I BELIEVE THESE EFFORTS ALSO
IMPROVED CLIMATE FOR CONSIDERATION OF COMPANY(S) NEW PROPOSALS

OF A FORMULA FOR RESOLVING LONGER TERM PROBLEMS OF COST/PRICE
SQUEEZE. HOWEVER, DUE TO EXPLOSIVE NATURE OF LATTER PROBLEM, THERE
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REMAINS SENSITIVITY IN RELATIONS BETWEEN THE COMPANY AND THE MINISTRY
WHICH WILL

REQUIRE FURTHER EMPLOYMENT OF EMBASSY GOOD OFFICES IN LOW
KEY, INFORMAL MANNER.
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